



**CITIZENS TELEPHONE
COOPERATIVE, INC. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTAL INFORMATION

For the Years Ended June 30, 2018 and 2017

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
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SUPPLEMENTAL INFORMATION

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CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Citizens Telephone Cooperative, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Citizens Telephone Cooperative, Inc. (a Virginia corporation) and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of margin, patronage capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Telephone Cooperative, Inc. and Subsidiaries as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included within Supplemental Information, as detailed within the Table of Contents, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

September 27, 2018

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents		
General Fund	\$ 295,252	294,430
Special Cash Deposits	2,612,598	2,464,842
Restricted Cash Deposits	<u>95,600</u>	<u>95,600</u>
Total Cash and Cash Equivalents	3,003,450	2,854,872
Telecommunications Accounts Receivable, Net of Allowance	229,564	237,448
Other Accounts Receivable	327	1,714
Materials and Supplies	499,429	534,880
Prepaid Expenses	<u>2,104,498</u>	<u>2,197,455</u>
Total Current Assets	<u>5,837,268</u>	<u>5,826,369</u>
OTHER ASSETS		
Investments		
Non-Controlling	229,053	192,715
Patronage-Based	<u>320,568</u>	<u>301,958</u>
Total Other Assets	<u>549,621</u>	<u>494,673</u>
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	<u>23,856,710</u>	<u>22,637,705</u>
TOTAL ASSETS	<u><u>\$ 30,243,599</u></u>	<u><u>28,958,747</u></u>

(Continued)

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND EQUITIES		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,342,220	571,943
Note Payable	888,888	888,888
Obligations under Capital Leases	78,045	119,663
Accrued Interest	17,914	17,914
Compensated Absences	354,594	357,766
Other Current Liabilities	151,840	155,587
Deferred Revenue	30,552	30,552
Deferred Grant Revenue	721,864	721,864
Total Current Liabilities	<u>3,585,917</u>	<u>2,864,177</u>
LONG-TERM LIABILITIES		
Obligations under Capital Leases	815	73,827
Deferred Grant Revenue	8,907,091	9,628,956
Deferred Revenue	341,959	378,999
Revolving Line-of-Credit	27,500	-
Note Payable, Net of Current Maturities	5,555,556	6,444,445
Total Long-Term Liabilities	<u>14,832,921</u>	<u>16,526,227</u>
TOTAL LIABILITIES	<u>18,418,838</u>	<u>19,390,404</u>
EQUITIES		
Patronage Capital	11,824,761	9,568,343
TOTAL EQUITIES	<u>11,824,761</u>	<u>9,568,343</u>
TOTAL LIABILITIES AND EQUITIES	<u><u>\$ 30,243,599</u></u>	<u><u>28,958,747</u></u>

See accompanying notes to the Consolidated Financial Statements.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MARGIN
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Basic Local Network Services	\$ 1,525,267	1,628,524
Network Access Services	4,283,118	4,065,478
Long-Distance Network Services	236	-
Miscellaneous	204,996	202,776
Less: Uncollectible Revenues	(59,950)	(35,304)
Sales, Leasing, Programming, Etc.	3,212,139	2,831,456
Less: Cost of Sales, Leasing, Programming, Etc.	<u>(2,129,006)</u>	<u>(2,011,629)</u>
NET OPERATING REVENUES	<u>7,036,800</u>	<u>6,681,301</u>
OPERATING EXPENSES		
Plant Specific Operations	2,332,774	2,225,664
Plant Non-Specific Operations	1,115,241	1,172,311
Depreciation and Amortization	1,028,303	846,699
Customer Operations Expense	750,001	805,784
Corporate Operations Expense	<u>1,470,238</u>	<u>1,678,961</u>
TOTAL OPERATING EXPENSES BEFORE TAXES	6,696,557	6,729,419
OPERATING TAXES	<u>237,000</u>	<u>190,322</u>
TOTAL OPERATING EXPENSES	<u>6,933,557</u>	<u>6,919,741</u>
NET OPERATING MARGIN (DEFICIT) BEFORE FIXED CHARGES	<u>103,243</u>	<u>(238,440)</u>
FIXED CHARGES		
Interest on Long-Term Debt	<u>314,550</u>	<u>256,803</u>

(Continued)

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MARGIN
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
NET OPERATING DEFICIT	<u>(211,307)</u>	<u>(495,243)</u>
NON-OPERATING MARGIN (DEFICIT)		
Gain on Investments	268,860	210,361
Loss on Disposal of Property, Plant and Equipment	(42,285)	-
Impairment Loss on Inventory	-	(44,500)
Non-Regulated Revenue	7,022,184	6,792,987
Non-Regulated Expense	(5,482,094)	(5,330,976)
Other Income	3,943	386
Grant Income	<u>721,864</u>	<u>721,864</u>
TOTAL NON-OPERATING MARGIN	<u>2,492,472</u>	<u>2,350,122</u>
NET MARGIN	<u><u>\$ 2,281,165</u></u>	<u><u>1,854,879</u></u>

See accompanying notes to the Consolidated Financial Statements.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PATRONAGE CAPITAL
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
BALANCE at Beginning of Year	\$ 9,568,343	7,807,002
PATRONAGE DIVIDEND	(24,747)	(93,538)
NET MARGIN	<u>2,281,165</u>	<u>1,854,879</u>
BALANCE at End of Year	<u><u>\$ 11,824,761</u></u>	<u><u>9,568,343</u></u>

See accompanying notes to the Consolidated Financial Statements.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margin	\$ 2,281,165	1,854,879
Less: Non-Regulated Income	<u>(2,876,736)</u>	<u>(2,774,251)</u>
Net Deficit From Regulated Operations	(595,571)	(919,372)
Adjustments to Reconcile Net Deficit from Regulated Operations to Net Cash Provided by (Used for) Operating Activities		
Depreciation and Amortization	1,028,303	846,699
Non-Regulated Depreciation	1,336,646	1,312,240
Loss on Disposal of Property, Plant and Equipment	42,285	-
Impairment Loss on Inventory	-	44,500
Patronage Dividend	(24,747)	(93,538)
(Increase) Decrease in Assets		
Net Telecommunications Accounts Receivable	7,884	(11,877)
Other Accounts Receivable	1,387	2,830
Materials and Supplies	35,451	(226,660)
Prepaid Expenses	235,263	(1,631,172)
Increase (Decrease) in Liabilities		
Accounts Payable	770,277	(21,390)
Compensated Absences	(3,172)	(20,141)
Other Current Liabilities	(3,747)	(64,208)
Deferred Revenue	(37,036)	(29,847)
Deferred Grant Revenue	<u>(721,865)</u>	<u>(721,864)</u>
Net Cash Provided by (Used for) Operating Activities	<u>2,071,358</u>	<u>(1,533,800)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property, Plant and Equipment	(3,633,189)	(1,326,126)
Proceeds From Sale of Property, Plant and Equipment	6,946	-
Non-Controlling Investments	(36,338)	51,701
Patronage-Based Investments	(18,610)	(1,174)
Investment Return on Prefunded Pension	(142,306)	(150,708)
Non-Regulated Income	<u>2,876,736</u>	<u>2,774,251</u>
Net Cash Provided by (Used for) Investing Activities	<u>(946,761)</u>	<u>1,347,944</u>

(Continued)

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Obligations under Capital Leases	(114,630)	(100,655)
Payments on Debt	(888,888)	(6,826,667)
Proceeds from Issuance of Debt	-	8,000,000
Draws on Line of Credit	27,499	-
	<u>(976,019)</u>	<u>1,072,678</u>
Net Cash Provided by (Used for) Financing Activities		
	<u>(976,019)</u>	<u>1,072,678</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	148,578	886,822
BALANCE AT BEGINNING OF YEAR	2,854,872	1,968,050
BALANCE AT END OF YEAR	<u>\$ 3,003,450</u>	<u>2,854,872</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u>\$ 314,550</u>	<u>256,803</u>

See accompanying notes to the Consolidated Financial Statements.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The reporting entity includes Citizens Telephone Cooperative, Inc. and its wholly-owned subsidiaries, SelecTec, Inc. and Citizens Cablevision, Inc. (collectively referred to as the Cooperative, except to the extent the context otherwise requires). These corporations are chartered by the Commonwealth of Virginia and operate in Floyd County and adjacent counties out of offices located in Floyd and Fort Chiswell, Virginia. The Cooperative provides telephone, internet, cable television, transport, home security, medical alert, and web and email hosting services. SelecTec, Inc. provides, sells, and leases communication equipment. Citizens Cablevision, Inc. provides cable television and internet on a monthly basis to subscribers. The Cooperative and Citizens Cablevision, Inc. use the Uniform System of Accounts for Telephone Companies prescribed by the Federal Communication Commission.

Basis of Presentation

The Cooperative presents its consolidated financial statements on the accrual basis of accounting in compliance with generally accepted accounting principles. Revenues are recognized when earned and measurable and expenses are recorded when liabilities are incurred.

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiaries: SelecTec, Inc. and Citizens Cablevision, Inc. All significant intra-entity balances and transactions are eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Cash includes amounts in demand deposits, which are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Cooperative has a concentrated credit risk in cash deposits that, from time to time, exceed amounts insured by the FDIC.

Accounts Receivable and Allowance

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. Management's estimate is based on a review of historical information as well as an analysis of the collectability of individual accounts. Receivables are deemed to be past due based on terms that have been established by management, and are expensed when deemed uncollectible.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Materials and Supplies

Unapplied materials and supplies held in stock are valued at the lower of average cost or market, using the first-in, first-out (FIFO) method. Reusable material recovered in connection with construction, maintenance, or retirements is recorded at cost, or estimated cost, if cost is not known.

Investments

Non-Controlling Investments

Investments in other organizations consist of purchased equities, which are accounted for under the equity method or the cost method based on the nature of the investment, and equities received as patronage dividend income, which are carried at face value. It is not practicable to estimate the fair value of these investments because there is no established market. Losses are recognized on these investments when the Cooperative receives formal notification of loss allocations from the investee, or when there has been a permanent impairment of the carrying value of the investment. Redemption of these equities is at the discretion of the various organizations, thereby making it impracticable to estimate future cash flows from these investments.

Patronage-Based Investments

The Cooperative classifies patronage-based investments as held-to-maturity since these investments are non-transferrable and the redemption of such investments is generally at the discretion of the issuing cooperative. These investments are stated at cost, adjusted for subsequent allocations and redemptions of patronage capital.

Non-Regulated Investments

Investments in non-regulated equipment are stated at original cost and are depreciated using the straight-line method over the equipment's estimated useful life. As of June 30, 2018 and 2017, the equipment was fully depreciated.

Property, Plant and Equipment

The Cooperative accounts for property, plant, and equipment as follows:

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided for using the straight-line method over the estimated useful lives of the respective assets. Major renewals and betterments are capitalized. Repairs and maintenance are charged to expense as incurred. The original cost of telephone plant under construction is separated from telephone plant in service. Depreciation commences when construction is completed and plant is put into service. The depreciation reserve is charged with the original cost of property retired plus removal cost. Any salvage value or insurance recovery applicable to the property retired is credited to the depreciation reserve.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension Plan

The pension plan is provided through the National Telephone Cooperative Association. For all full-time employees completing a six month orientation period, the Cooperative contributes 11.9% of each employee's base wages. An additional 4.0% is deducted from each participating employee's pay and represents the employee's contribution to the plan. Employees are vested from the first day of participation.

Accrued Vacation

Employees of the Cooperative are entitled to paid vacation days, depending on length of service. The Cooperative accrues vacation pay on the first day of each calendar year, except for first year hires. First year hires accrue vacation monthly for the first year; thereafter, they accrue on the first day of each calendar year. Vacation can be carried over from year to year with a maximum accrual of 480 hours.

Return of Capital

Operating margins for each year are allocated to those patrons served during the year. The allocation is based on the ratio of revenue from each patron to total patron revenue for the period. Periodically, margins for certain prior years are paid to the patrons from whom they were contributed. In years in which a deficit is experienced, there is no allocation to patron accounts. The patronage dividend paid during the years ended June 30, 2018 and 2017 was \$0 and \$93,538, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Reclassifications

Certain balances for the year ended June 30, 2017 have been reclassified to conform to the June 30, 2018 presentation.

Subsequent Events

Management has evaluated subsequent events through September 27, 2018, the date which the consolidated financial statements were available to be issued.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 - ASSETS PLEDGED

All assets of the Citizens Telephone, Citizens Cablevision, Inc. and SelecTec, Inc. are pledged as security for long-term debt.

NOTE 3 - RESTRICTED CASH

The restricted cash deposit in the amount of \$95,600 as of June 30, 2018 and 2017 is related to a residential construction agreement.

NOTE 4 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE

Telecommunications accounts receivable consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Telecommunications Accounts Receivable	\$ 262,255	269,126
Allowance for Doubtful Accounts	<u>(32,691)</u>	<u>(31,678)</u>
Telecommunications Accounts Receivable, Net of Allowance	<u><u>\$ 229,564</u></u>	<u><u>237,448</u></u>

The Cooperative had approved write-offs during the years ended June 30, 2018 and 2017 of \$60,530 and \$44,723, respectively.

NOTE 5 - PREPAID EXPENSES

As of June 30, 2018 and 2017, prepaid expenses were as follows:

	<u>2018</u>	<u>2017</u>
Pre-funded Retirement Surcharge	\$ 1,822,153	1,903,822
Prepaid Insurance	30,752	34,809
Prepaid Retirement and Security	129,711	132,896
Other Prepaid Items	<u>121,882</u>	<u>125,928</u>
Total Prepaid Expenses	<u><u>\$ 2,104,498</u></u>	<u><u>2,197,455</u></u>

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 6 - INVESTMENTS

Non-Controlling Investments

	<u>2018</u>	<u>2017</u>
<i>Virginia Independent Telephone Alliance, LLC</i>		
This investment enables the Cooperative access to Signaling System 7 capabilities to local exchange carriers in the state. This investment is accounted for under the equity method.	\$ 137,172	127,363
<i>Associated Network Partners, Inc. (ANPI)</i>		
This investment assists the Cooperative in the provision of long-distance service. This investment has been accounted for using the cost method. This investment is classified as available-for-sale and is stated at cost since fair value for this investment is not readily determinable.	12,200	12,200
<i>MBC Networks LLC dba LIT Networks LLC (LIT)</i>		
This investment enables the Cooperative to connect with other regional networks, from Virginia to Georgia, to provide seamless optical transport. This investment is accounted for under the equity method.	62,881	36,352
<i>ANPI / NewStreets, Inc.</i>		
This investment assists the Cooperative in establishing a nationwide network of local and regional Internet service providers, to provide a series of co-branded portals and suite of Internet-related services and content, and to provide other assistance. NewStreets, Inc. shares were merged to ANPI, Inc. shares, merged into ANPI LLC shares then contributed to ANZ LLC. This investment has been accounted for using the cost method. This investment is classified as available-for-sale and is stated at cost since fair value for this investment is not readily determinable.	13,800	13,800
<i>NECA Services, Inc. (NSI)</i>		
NSI is a for-profit corporation established to carry on and expand various business opportunities presented to the National Exchange Carrier Association, Inc. (NECA). This investment has been accounted for using the cost method. This investment is classified as available-for-sale and is stated at cost since fair value for this investment is not readily determinable.	<u>3,000</u>	<u>3,000</u>
Total Non-Controlling Investments	<u>\$ 229,053</u>	<u>192,715</u>

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 6 - INVESTMENTS (CONTINUED)

Patronage-Based Investments

	<u>2018</u>	<u>2017</u>
<i>National Rural Telecommunications Cooperative (NRTC)</i>		
This patronage-based investment enables the Cooperative to access products and services developed specifically for rural utilities. The investment represents noncash allocations of patronage capital received by the Cooperative. This capital is nontransferable and redeemable in cash at the sole discretion of NRTC. Therefore, the investment is classified as held-to-maturity and stated at cost, adjusted for subsequent allocations and redemptions of capital.	\$ 66,543	66,543
<i>CoBank</i>		
This patronage-based investment enables the Cooperative to access debt financing. The investment represents noncash allocations of patronage capital received by the Cooperative. This capital is redeemable in cash at the sole discretion of CoBank and non-transferrable. Therefore, the investment is classified as held-to-maturity and stated at initial cost, \$1,000, adjusted for subsequent allocations and redemptions of capital.	<u>254,025</u>	<u>235,415</u>
Total Patronage-Based Investments	<u><u>\$ 320,568</u></u>	<u><u>301,958</u></u>

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 259,842	259,842
Land Improvements	264,977	264,977
Buildings and Improvements	3,445,412	3,272,096
BTOP	11,093,477	11,093,477
EWSD	301,346	428,713
Poles and Lines	279,619	277,798
Aerial Cable	2,835,529	2,831,747
Buried Cable	34,214,990	31,487,544
Conduit Systems	309,595	309,595
Equipment and Machinery	6,890,921	6,217,023
Vehicles	1,041,783	938,546
Office Furniture and Equipment	427,442	469,478
Remotes	344,688	551,304
Capital Leases	419,950	419,950
Leased Equipment	<u>6,386</u>	<u>26,212</u>
 Total - Telephone Plant in Service	 <u>62,135,957</u>	 <u>58,848,302</u>
 Plant Under Construction	 <u>318,675</u>	 <u>191,974</u>
	62,454,632	59,040,276
Less: Accumulated Depreciation	<u>38,597,922</u>	<u>36,402,571</u>
Net Property, Plant and Equipment	<u><u>\$ 23,856,710</u></u>	<u><u>22,637,705</u></u>
 Total Depreciation Expense included in:		
Regulated Operations	\$ 1,028,303	846,699
Non-Regulated Operations	<u>1,336,646</u>	<u>1,312,240</u>
Total Depreciation Expense for the Year	<u><u>\$ 2,364,949</u></u>	<u><u>2,158,939</u></u>

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 8 - NOTE PAYABLE

During September 2016, the Cooperative refinanced their outstanding loan with CoBank. At the time of refinancing, the prior loan had an outstanding balance of \$6,160,000 and carried interest at a rate equal to the LIBOR rate of interest plus a variable margin based on the Cooperative's total leverage ratio. The interest rate on the prior loan was 2.96% as of June 30, 2016. The new debt agreement is in the amount of \$8,000,000. The proceeds from the term loan were used to restructure existing debt, to pre-fund the Cooperative's net pension liability as required by NTCA, and to pay fees and expenses associated with closing the term loan. The note is amortized in thirty-six quarterly principal payments in the amount of \$222,222, commencing in September 2025. All unpaid balances are due at maturity. The loan carries interest at the bank's quoted rate, which was 4.61% and 3.73% at June 30, 2018 and 2017, respectively. Interest shall be payable monthly in arrears of the following month. This note is collateralized by substantially all of Citizens Telephone's assets, as well as substantially all of the assets of Citizens Cablevision, Inc. and SelecTec, Inc. During the years ended June 30, 2018 and 2017, the Cooperative paid \$314,550 and \$256,803, respectively, of interest payments and \$888,887 and \$666,667, respectively, payments towards the principal of the loan.

The Cooperative's note payable with the bank includes certain restrictions and covenants. Under these restrictions, the Cooperative is prohibited from borrowing from others or paying any dividends or other similar distributions of assets with the exception of patronage refunds to its members. In addition, the Cooperative must maintain certain financial ratios. As of June 30, 2018 and 2017, the Cooperative was in compliance with the consolidated financial statement covenants.

The schedule of maturities for the years following June 30, 2018 is as follows:

Year Ended June 30	
2019	\$ 888,888
2020	888,888
2021	888,888
2022	888,888
Thereafter	<u>2,888,892</u>
Total	<u>\$ 6,444,444</u>

NOTE 9 - LINE OF CREDIT

In July 2017, the Cooperative obtained a line of credit with CoBank in the amount of \$5,000,000. This line will provide additional funds for the Cooperative to finance capital expenses related to the ACAM project and to finance other general expenses. This line is set to mature on June 30, 2027 and has an interest rate that will follow the bank-quoted fixed rate, which was 4.61% at June 30, 2018. Outstanding draws on the line of credit totaled \$27,499 at June 30, 2017.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 10 - DEFERRED REVENUE

In July 2013, the Cooperative entered into a 20-year service agreement with a local agency. The payments are recorded as Broadband Technology Opportunity Program (BTOP) revenue within the Cooperative. An upfront cost of \$53,500 was collected. The consolidated deferred revenue balance recorded with this agreement as of June 30, 2018 and 2017, was \$35,758 and \$39,525, respectively, of which \$2,675 is classified as a current liability.

In May 2013, the Cooperative entered into a 15-year service agreement with a local university. The payments are recorded as Broadband Technology Opportunity Program (BTOP) revenue within the Cooperative. An upfront cost of \$136,555 was billed, which was comprised of \$129,400 for the 15-year service agreement while the remaining \$7,155 was for annual maintenance. The agreement was effective starting in May 2013. The consolidated deferred revenue balance recorded with this agreement as of June 30, 2018 and 2017, was \$84,828 and \$98,853, respectively, of which \$8,627 is classified as a current liability.

In March 2011, the Cooperative entered into a 15-year Indefeasible Right of Use Agreement with a local communications provider. The payments are allocated based on the existing fiber framework of the Cooperative and Citizens Cablevision, Inc. Citizens Cablevision, Inc. records approximately 45% of the revenue, while the Cooperative recognizes the remaining 55% over the life of the contract. An upfront cost of \$288,750 was received in April 2011 in exchange for a reduced annual fee. The agreement was effective starting in July 2011. The consolidated deferred revenue balance recorded with this agreement as of June 30, 2018 and 2017, was \$156,325 and \$175,573, respectively, of which \$19,250 is classified as a current liability.

In October 2009, Citizens Cablevision, Inc. entered into an agreement with a real estate developing company to provide services to a future housing development. The contractor posted a deposit in the amount of \$95,600. The full amount will be reimbursed to the contractor on an incremental basis based on the number of homes developed. The \$95,600 is recorded on the Consolidated Balance Sheets as restricted cash deposits and a long-term liability in deferred revenue as of June 30, 2018 and 2017. No amounts have been reimbursed as of June 30, 2018.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 11 - OBLIGATIONS UNDER CAPITAL LEASES

The Cooperative has entered into several lease agreements with various terms through June 2020. These assets are included on the Consolidated Balance Sheets at a capitalized cost of \$419,950 and \$531,248 as of June 30, 2018 and 2017, respectively. The accumulated amortization as of June 30, 2018 and 2017, is \$170,708 and \$85,585, respectively. Amortization expense reflected in the total depreciation expense for the years ended June 30, 2018 and 2017, was \$56,506 and \$85,123, respectively.

Future Obligations of Capital Leases are as follows:

Year Ending June 30	
2019	\$ 78,045
2020	2,156
Less: Interest	(1,341)
Total	<u>\$ 78,860</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

At June 30, 2018 and 2017, Citizens Cablevision, Inc. owed Citizens Telephone Cooperative, Inc. \$3,233,753 and \$4,247,219, respectively. At June 30, 2018 and 2017, SelecTec, Inc. owed Citizens Telephone Cooperative, Inc. \$643,024 and \$957,495, respectively. Additionally, Citizens Telephone Cooperative, Inc. had a related party note receivable from Citizens Cablevision, Inc. in the amount of \$2,480,326 and \$2,814,770 at June 30, 2018 and 2017, respectively. This amount represents the debt funds loaned to Citizens Cablevision, Inc. to pay the RUS debt.

During the year ended June 30, 2018, Citizens Telephone Cooperative, Inc. forgave \$1,200,000 and \$300,000 of the outstanding amount due from Citizens Cablevision, Inc. and SelecTec, Inc., respectively. Citizens Cablevision, Inc. and SelecTec, Inc. recognized gains of \$1,200,000 and \$300,000, respectively. Citizens Telephone Cooperative, Inc. recognized a \$1,500,000 loss due to this transaction.

Citizens Telephone Cooperative, Inc. maintains the billings and collections for all subsidiary companies. Billing receivables are purchased monthly by Citizens Telephone Cooperative, Inc.

Citizens Telephone Cooperative, Inc. charges Citizens Cablevision, Inc. a monthly management fee of \$20,000 for various management, support and retail functions and services in conjunction with the operations. Transportation costs and all other costs and expenses, including materials and supplies, incurred by Citizens Cablevision, Inc. will be charged at cost. Citizens Telephone Cooperative, Inc. charges SelecTec, Inc. at cost for material, labor, and overhead costs. Additionally, Citizens Telephone Cooperative, Inc. charges SelecTec, Inc. rent for the office space. The monthly cost is \$50 which equates to an annual cost of \$600.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 12 - RELATED PARTY TRANSACTIONS (CONTINUED)

At December 31, 2014, Citizens Telephone Cooperative, Inc. purchased depreciable assets from Citizens Cablevision, Inc. in the amount of \$4,623,169. Due to this transaction, Citizens Cablevision, Inc. recognized a gain in the amount of \$3,309,209. Due to the purchase of fiber from Citizens Cablevision, Inc., Citizens Telephone Cooperative, Inc. began billing Citizens Cablevision, Inc. for the number of miles they use. Citizens Cablevision, Inc. pays the going customer rate for this. The monthly cost totals \$8,100 between transport and internet usage. This was effective January 1, 2015. Therefore, the total cost was \$97,200 for each of the years ending June 30, 2018 and 2017.

In December 2016, Citizens Telephone Cooperative, Inc. purchased three tracts of land from Citizens Cablevision, Inc. in the amount of \$87,600. Due to this transaction Citizens Cablevision, Inc. recognized a gain of \$24,342.

During 2018, Citizens Telephone Cooperative, Inc. purchased three vehicles from Citizens Cablevision, Inc. in the amount of \$73,621. Citizens Cablevision, Inc. recognized a gain of \$21,000 from this sale. Citizens Telephone Cooperative, Inc. also purchased a vehicle from SelecTec, Inc. for \$2,775. SelecTec, Inc. recognized a gain of \$2,775 on the sale.

NOTE 13 - PENSION PLAN

The Cooperative provides its employees retirement benefits through the Retirement and Security Program for Employees of the National Telecommunications Cooperative Association and Member Systems (NTCA R&S), a defined benefit multi-employer plan.

The benefits are based on the sum of percentages of annual contributions by the employee and the Cooperative times the average wage of the five highest years during the ten years preceding retirement times a factor based on retirement age. Death benefits are also provided.

Because the Cooperative participates in a multi-employer defined benefit plan, information regarding aggregate accumulated plan benefits and plan net assets for employees of the Cooperative is not available.

The total expenses of the pension program for the years ended June 30, 2018 and 2017, were \$457,377 and \$521,687, respectively.

During September 2016, NTCA R&S gave the Cooperative the option to pre-fund its net pension liability. The Cooperative choose the option to pre-fund and thus made a payment of \$1,840,482 to NTCA R&S to cover its portion of the projected net pension liability. These funds were placed in an investment account at NTCA in the Cooperative's name. These funds are used to make required monthly pension surcharges to NTCA R&S and are included with Prepaid Expenses on the Cooperative's Consolidated Balance Sheet. The Cooperative also earns a return on these funds which is added to the original deposit and is used to pay future surcharges. Unrealized gains of \$142,309 and \$150,708 were recognized on these funds during the years ended June 30, 2018 and 2017, respectively and are included in Gain on Investments on the Consolidated Statements of Margin.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 13 - PENSION PLAN (CONTINUED)

Changes in Prepaid NTCA R&S funds are as follows:

	2018	2017
Balance, July 1, 2017	\$ 1,903,822	-
Additions	-	1,840,482
Surcharge Payments	(223,978)	(87,368)
Unrealized Gains	142,309	150,708
Balance, June 30, 2018	<u>\$ 1,822,153</u>	<u>1,903,822</u>

NOTE 14 - VIRGINIA TOBACCO GRANT

On February 13, 2012, the Cooperative was approved a new "Tobacco Region Access Connection (TRAC)" grant in the amount of \$550,086. As of June 30, 2013, the Cooperative had incurred costs and received \$550,086. The asset was placed in service as of June 30, 2013. The amount of revenue earned is calculated by taking the amount of the asset constructed over the estimated useful life of the asset. In the years ended June 30, 2018 and 2017, \$27,504, was recorded as revenue and depreciation. The remaining amount of revenue to be recorded was \$412,565 and \$440,070, at June 30, 2018 and 2017, respectively. These amounts are classified as deferred grant revenue in current liabilities of \$27,504 at June 30, 2018 and 2017, and as deferred grant revenue in long-term liabilities of \$385,060 and \$412,566 at June 30, 2018 and 2017, respectively.

On January 13, 2009, the Cooperative was approved for a grant to fund a TRAC project in the amount of \$1,862,000. As of June 30, 2012, the Cooperative had incurred costs of \$1,311,914. These assets were placed in service in July 2010. In February 2012, the remaining funds of \$550,086 were approved to be used on a new TRAC grant as detailed in the preceding paragraph. The amount of revenue earned is calculated by taking the amount of the asset constructed over the estimated useful life of the asset. In the years ended June 30, 2018 and 2017, \$65,596 was recorded as revenue and depreciation. The remaining amount of revenue to be recorded was \$787,148 and \$852,743, at June 30, 2018 and 2017, respectively. These amounts are classified as deferred grant revenue in current liabilities of \$65,596 at June 30, 2018 and 2017, and as deferred grant revenue in long-term liabilities of \$721,552 and \$787,147, at June 30, 2018 and 2017, respectively.

On November 10, 2005, the Cooperative was approved for a grant to fund a TRAC project in the amount of \$3,700,500. As of June 30, 2008, \$3,700,500 had been received and the Cooperative had incurred costs of \$3,700,500. The amount of revenue earned is calculated by taking the amount of the asset constructed over the estimated useful life of the asset. In the years ended June 30, 2018 and 2017, \$185,025 was recorded as revenue and depreciation. The remaining amount of revenue to be recorded was \$1,773,156 and \$1,958,182 at June 30, 2018 and 2017, respectively. These amounts are classified as deferred grant revenue in current liabilities of \$185,025 at June 30, 2018 and 2017, and as deferred grant revenue in long-term liabilities of \$1,588,131 and \$1,773,157 at June 30, 2018 and 2017, respectively.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 15 - BTOP GRANT

In July 2011, the Cooperative signed an agreement with the National Telecommunications and Information Administration (NTIA) under its Broadband Technology Opportunity Program (BTOP). The grant requires a 20% match from the Cooperative. Construction on the project was completed in July 2013, at which time, the asset was placed into service in the amount of \$11,093,477. The federal portion of the grant was capitalized in the amount of \$8,874,783. The amount of revenue earned is calculated by taking the amount of the asset constructed over the estimated useful life of the asset. In the years ended June 30, 2018 and 2017, \$443,739 was recorded as revenue and depreciation. The remaining amount of revenue to be recorded was \$6,656,086 and \$7,099,825, at June 30, 2018 and 2017, respectively. These amounts are classified as deferred grant revenue in current liabilities of \$443,739 at June 30, 2018 and 2017, and as deferred grant revenue in long-term liabilities of \$6,212,347 and \$6,656,086, at June 30, 2018 and 2017, respectively.

NOTE 16 - ACAM PROJECT

In October 2016, the Cooperative signed an agreement with the Federal Communications Commission (FCC) under its Alternative Connect America Cost Model (ACAM). The ACAM provides the Cooperative with \$2,001,304 each year for 10 years with no matching funds. The project began in February 2016. Revenue is considered earned when each monthly payment from the FCC is received. For the years ending June 30, 2018 and 2017, \$1,900,506 and \$791,877, respectively, was recorded as revenue.

The first phase of the project was completed during the year ended June 30, 2018. As of June 30, 2018, the project's second and third phases are currently in progress, and were reflected in Construction in Progress with a cost of \$270,482.

NOTE 17 - INCOME TAXES

The Cooperative accounts for income taxes in accordance with the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC), whereby deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Deferred taxes are related to the effects of tax loss carryforwards.

Citizens Telephone Cooperative

Citizens Telephone Cooperative is exempt from federal income taxes under Internal Revenue Code Section 501(c)(12). Internal Revenue Service Form 990 is filed annually. An estimated tax liability has been recognized in these consolidated financial statements for unrelated business income.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 17 - INCOME TAXES (CONTINUED)

SelecTec, Inc.

SelecTec, Inc. files federal and Virginia corporate income tax returns. As of June 30, 2018, the Company had federal and state net operating loss carryforwards, which may be applied to future taxable income. These loss carryforwards begin to expire in 2028, if unused. The deferred tax benefit allowance was 100%, resulting in no benefit at June 30, 2018, due to concerns regarding SelecTec, Inc.'s realization of these benefits in future periods as a result of continuing net operating losses.

Citizens Cablevision, Inc.

Citizens Cablevision, Inc. files federal and Virginia corporate income tax returns. As of June 30, 2017, the Company had federal and state net operating loss carryforwards, which may be applied to future taxable income. These loss carryforwards will begin to expire in 2029, if unused. The deferred tax benefit allowance was 100%, resulting in no benefit at June 30, 2018, due to concerns regarding Citizens Cablevision, Inc. realization of these benefits in future periods as a result of continuing net operating losses.

Consolidated

As of December 31, 2017, Citizens Cablevision, Inc. and Selectec, Inc.'s federal and state net operating loss carryforwards are \$9,560,851. These may be deducted against future taxable income. An allowance was estimated for the portion believed may expire. For the year ended June 30, 2018, this allowance decreased \$1,271,740. The net operating loss carryforwards will begin to expire as follows:

Year Ending December 31	Federal	State
2028	\$ 553,473	553,473
2029	2,676,373	2,676,373
2030	1,085,606	1,085,606
2031	1,759,405	1,759,405
2032	1,555,426	1,555,426
2033	4,904	4,904
2034	178,461	178,461
2035	1,188,016	1,188,016
2036	559,187	559,187
Total	<u>\$ 9,560,851</u>	<u>9,560,851</u>

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 18 - UNCERTAIN TAX POSITIONS

The Cooperative follows the provisions of uncertain tax positions as addressed in the FASB ASC. The Cooperative did not have unrecognized tax liabilities as of June 30, 2018 and 2017, and does not expect this to change significantly over the next 12 months. The Cooperative will recognize interest and penalties accrued on any unrecognized tax liabilities as a component of income tax expense. As of June 30, 2018 and 2017, the Cooperative has not accrued interest or penalties related to uncertain tax positions.

NOTE 19 - ACCOUNTING STANDARD UPDATES

On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the fiscal year ending June 30, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the fiscal year ending June 30, 2020.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the fiscal year ending June 30, 2022.

SUPPLEMENTAL INFORMATION

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
June 30, 2018

	CTC (Parent)	SelecTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents					
General Fund	\$ 291,219	2,787	1,246	-	295,252
Special Cash Deposits	2,680,873	15,890	6,432	(90,597)	2,612,598
Restricted Cash Deposits	-	-	95,600	-	95,600
Total Cash and Cash Equivalents	<u>2,972,092</u>	<u>18,677</u>	<u>103,278</u>	<u>(90,597)</u>	<u>3,003,450</u>
Telecommunications Accounts					
Receivable, Net of Allowance	229,564	-	-	-	229,564
Due from Affiliated Companies	3,876,777	-	-	(3,876,777)	-
Other Accounts Receivable	327	-	-	-	327
Materials and Supplies	378,072	1,020	120,337	-	499,429
Prepaid Expenses	2,080,802	8,396	15,300	-	2,104,498
Total Current Assets	<u>9,537,634</u>	<u>28,093</u>	<u>238,915</u>	<u>(3,967,374)</u>	<u>5,837,268</u>
OTHER ASSETS					
Investments					
Non-Controlling	207,753	21,300	-	-	229,053
Patronage-Based	236,813	66,543	17,212	-	320,568
Investment in Affiliated Corporations					
SelecTec, Inc.	(527,103)	-	-	527,103	-
Citizens Cablevision, Inc.	(4,920,257)	-	-	4,920,257	-
Note Receivable - Intercompany	2,480,326	-	-	(2,480,326)	-
Total Other Assets	<u>(2,522,468)</u>	<u>87,843</u>	<u>17,212</u>	<u>2,967,034</u>	<u>549,621</u>
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	<u>25,590,206</u>	<u>-</u>	<u>937,064</u>	<u>(2,670,560)</u>	<u>23,856,710</u>
TOTAL ASSETS	<u><u>\$ 32,605,372</u></u>	<u><u>115,936</u></u>	<u><u>1,193,191</u></u>	<u><u>(3,670,900)</u></u>	<u><u>30,243,599</u></u>

(Continued)

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
June 30, 2018

	CTC (Parent)	SelecTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
LIABILITIES AND EQUITIES					
LIABILITIES					
CURRENT LIABILITIES					
Cash Overdraft	\$ -	-	90,597	(90,597)	-
Accounts Payable	1,246,809	13	95,398	-	1,342,220
Due to Affiliated Companies	-	643,024	3,233,753	(3,876,777)	-
Note Payable	888,888	-	-	-	888,888
Obligations under Capital Leases	78,045	-	-	-	78,045
Accrued Interest	17,914	-	-	-	17,914
Compensated Absences	354,594	-	-	-	354,594
Other Current Liabilities	104,840	-	47,000	-	151,840
Deferred Revenue	21,889	-	8,663	-	30,552
Deferred Grant Revenue	721,864	-	-	-	721,864
Total Current Liabilities	<u>3,434,843</u>	<u>643,037</u>	<u>3,475,411</u>	<u>(3,967,374)</u>	<u>3,585,917</u>
LONG-TERM LIABILITIES					
Obligations under Capital Leases	815	-	-	-	815
Deferred Grant Revenue	8,907,091	-	-	-	8,907,091
Deferred Revenue	184,245	-	157,714	-	341,959
Note Payable - Intercompany	-	-	2,480,326	(2,480,326)	-
Revolving Line-of-Credit	27,500	-	-	-	27,500
Note Payable, Net of Current Maturities	5,555,556	-	-	-	5,555,556
Total Long-Term Liabilities	<u>14,675,207</u>	<u>0</u>	<u>2,638,040</u>	<u>(2,480,326)</u>	<u>14,832,921</u>
TOTAL LIABILITIES	<u>18,110,050</u>	<u>643,037</u>	<u>6,113,451</u>	<u>(6,447,700)</u>	<u>18,418,838</u>
EQUITIES					
Patronage Capital	14,495,322	-	-	(2,670,561)	11,824,761
Capital Stock	-	25,000	1,000	(26,000)	-
Paid-In Capital	-	75,000	2,099,000	(2,174,000)	-
Retained Earnings (Deficit)	-	(627,101)	(7,020,260)	7,647,361	-
TOTAL EQUITIES	<u>14,495,322</u>	<u>(527,101)</u>	<u>(4,920,260)</u>	<u>2,776,800</u>	<u>11,824,761</u>
TOTAL LIABILITIES AND EQUITIES	<u>\$ 32,605,372</u>	<u>115,936</u>	<u>1,193,191</u>	<u>(3,670,900)</u>	<u>30,243,599</u>

See Independent Auditors' Report

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
June 30, 2017

	CTC (Parent)	SelecTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents					
General Fund	\$ 278,185	1,676	14,569	-	294,430
Special Cash Deposits	2,501,837	19,081	6,422	(62,498)	2,464,842
Restricted Cash Deposits	-	-	95,600	-	95,600
Total Cash and Cash Equivalents	<u>2,780,022</u>	<u>20,757</u>	<u>116,591</u>	<u>(62,498)</u>	<u>2,854,872</u>
Telecommunications Accounts					
Receivable, Net of Allowance	237,448	-	-	-	237,448
Due from Affiliated Companies	5,204,714	-	-	(5,204,714)	-
Other Accounts Receivable	1,714	-	-	-	1,714
Materials and Supplies	423,079	6,451	105,350	-	534,880
Prepaid Expenses	2,181,025	8,396	8,034	-	2,197,455
Total Current Assets	<u>10,828,002</u>	<u>35,604</u>	<u>229,975</u>	<u>(5,267,212)</u>	<u>5,826,369</u>
OTHER ASSETS					
Investments					
Non-Controlling	171,415	21,300	-	-	192,715
Patronage-Based	218,203	66,543	17,212	-	301,958
Investment in Affiliated Corporations					
SelecTec, Inc.	(834,055)	-	-	834,055	-
Citizens Cablevision, Inc.	(6,099,349)	-	-	6,099,349	-
Notes Receivable - Intercompany	2,814,770	-	-	(2,814,770)	-
Total Other Assets	<u>(3,729,016)</u>	<u>87,843</u>	<u>17,212</u>	<u>4,118,634</u>	<u>494,673</u>
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	<u>24,452,687</u>	<u>-</u>	<u>1,079,144</u>	<u>(2,894,126)</u>	<u>22,637,705</u>
TOTAL ASSETS	<u><u>\$ 31,551,673</u></u>	<u><u>123,447</u></u>	<u><u>1,326,331</u></u>	<u><u>(4,042,704)</u></u>	<u><u>28,958,747</u></u>

(Continued)

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
June 30, 2017

	CTC (Parent)	SelecTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
LIABILITIES AND EQUITIES					
LIABILITIES					
CURRENT LIABILITIES					
Cash Overdraft	\$ -	-	62,498	(62,498)	-
Accounts Payable	492,543	5	79,395	-	571,943
Due to Affiliated Companies	-	957,495	4,247,219	(5,204,714)	-
Note Payable	888,888	-	-	-	888,888
Obligations under Capital Leases	119,663	-	-	-	119,663
Accrued Interest	17,914	-	-	-	17,914
Compensated Absences	357,766	-	-	-	357,766
Other Current Liabilities	108,829	-	46,758	-	155,587
Deferred Revenue	21,890	-	8,662	-	30,552
Deferred Grant Revenue	721,864	-	-	-	721,864
Total Current Liabilities	<u>2,729,357</u>	<u>957,500</u>	<u>4,444,532</u>	<u>(5,267,212)</u>	<u>2,864,177</u>
LONG-TERM LIABILITIES					
Obligations under Capital Leases	73,827	-	-	-	73,827
Deferred Grant Revenue	9,628,956	-	-	-	9,628,956
Deferred Revenue	212,619	-	166,380	-	378,999
Note Payable - Intercompany	-	-	2,814,770	(2,814,770)	-
Note Payable, Net of Current Maturities	6,444,445	-	-	-	6,444,445
Total Long-Term Liabilities	<u>16,359,847</u>	<u>0</u>	<u>2,981,150</u>	<u>(2,814,770)</u>	<u>16,526,227</u>
TOTAL LIABILITIES	<u>19,089,204</u>	<u>957,500</u>	<u>7,425,682</u>	<u>(8,081,982)</u>	<u>19,390,404</u>
EQUITIES					
Patronage Capital	12,462,469	-	-	(2,894,126)	9,568,343
Capital Stock	-	25,000	1,000	(26,000)	-
Paid-In Capital	-	75,000	2,099,000	(2,174,000)	-
Retained Earnings (Deficit)	-	(934,053)	(8,199,351)	9,133,404	-
TOTAL EQUITIES	<u>12,462,469</u>	<u>(834,053)</u>	<u>(6,099,351)</u>	<u>4,039,278</u>	<u>9,568,343</u>
TOTAL LIABILITIES AND EQUITIES	<u>\$ 31,551,673</u>	<u>123,447</u>	<u>1,326,331</u>	<u>(4,042,704)</u>	<u>28,958,747</u>

See Independent Auditors' Report.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF MARGIN (DEFICIT)
For the Year Ended June 30, 2018

	CTC (Parent)	SelecTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
OPERATING REVENUES					
Basic Local Network Services	\$ 1,525,267	-	-	-	1,525,267
Network Access Services	4,283,118	-	-	-	4,283,118
Long-Distance Network Services	236	-	-	-	236
Miscellaneous	204,996	-	-	-	204,996
Less: Uncollectible Revenues	(59,950)	-	-	-	(59,950)
Sales, Leasing, Programming, Etc.	-	5,031	3,207,108	-	3,212,139
Less: Cost of Sales, Leasing, Programming, Etc.	-	(365)	(2,128,641)	-	(2,129,006)
NET OPERATING REVENUES	5,953,667	4,666	1,078,467	0	7,036,800
OPERATING EXPENSES					
Plant Specific Operations	2,048,760	-	428,014	(144,000)	2,332,774
Plant Non-Specific Operations	1,065,088	-	50,153	-	1,115,241
Depreciation and Amortization	1,061,073	-	214,571	(247,341)	1,028,303
Customer Operations Expense	725,183	300	120,518	(96,000)	750,001
Corporate Operations Expense	1,457,622	4,136	105,680	(97,200)	1,470,238
TOTAL OPERATING EXPENSES BEFORE TAXES	6,357,726	4,436	918,936	(584,541)	6,696,557
OPERATING TAXES	152,011	-	84,989	-	237,000
TOTAL OPERATING EXPENSES	6,509,737	4,436	1,003,925	(584,541)	6,933,557
NET OPERATING MARGIN (DEFICIT) BEFORE FIXED CHARGES	(556,070)	230	74,542	584,541	103,243
FIXED CHARGES					
Interest on Long-Term Debt	198,011	-	116,539	-	314,550
NET OPERATING MARGIN (DEFICIT)	(754,081)	230	(41,997)	584,541	(211,307)
NON-OPERATING MARGIN (DEFICIT)					
Gain on Investments	268,767	4	89	-	268,860
Gain (Loss) on Disposal of Property, Plant and Equipment	(42,285)	2,775	21,000	(23,775)	(42,285)
Gain (Loss) on Forgiveness of Debt	(1,500,000)	300,000	1,200,000	-	-
Subsidiaries Net Income (Loss)	1,486,044	-	-	(1,486,044)	-
Non-Regulated Revenue	7,359,384	-	-	(337,200)	7,022,184
Non-Regulated Expense	(5,482,094)	-	-	-	(5,482,094)
Other Income	-	3,943	-	-	3,943
Grant Income	721,864	-	-	-	721,864
TOTAL NON-OPERATING MARGIN (DEFICIT)	2,811,680	306,722	1,221,089	(1,847,019)	2,492,472
NET MARGIN (DEFICIT)	\$ 2,057,599	306,952	1,179,092	(1,262,478)	2,281,165

(Continued)

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF MARGIN (DEFICIT)
For the Year Ended June 30, 2017

	CTC (Parent)	SelecTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
OPERATING REVENUES					
Basic Local Network Services	\$ 1,628,524	-	-	-	1,628,524
Network Access Services	4,065,478	-	-	-	4,065,478
Miscellaneous	202,776	-	-	-	202,776
Less: Uncollectible Revenues	(35,304)	-	-	-	(35,304)
Sales, Leasing, Programming, Etc.	-	13,702	2,817,754	-	2,831,456
Less: Cost of Sales, Leasing, Programming, Etc.	-	(22,500)	(1,989,129)	-	(2,011,629)
NET OPERATING REVENUES	<u>5,861,474</u>	<u>(8,798)</u>	<u>828,625</u>	<u>0</u>	<u>6,681,301</u>
OPERATING EXPENSES					
Plant Specific Operations	1,883,763	-	485,901	(144,000)	2,225,664
Plant Non-Specific Operations	1,105,914	-	66,397	-	1,172,311
Depreciation and Amortization	803,726	-	284,422	(241,449)	846,699
Customer Operations Expense	777,280	5,160	119,344	(96,000)	805,784
Corporate Operations Expense	1,485,560	6,464	284,137	(97,200)	1,678,961
TOTAL OPERATING EXPENSES BEFORE TAXES	<u>6,056,243</u>	<u>11,624</u>	<u>1,240,201</u>	<u>(578,649)</u>	<u>6,729,419</u>
OPERATING TAXES	<u>155,324</u>	<u>-</u>	<u>34,998</u>	<u>-</u>	<u>190,322</u>
TOTAL OPERATING EXPENSES	<u>6,211,567</u>	<u>11,624</u>	<u>1,275,199</u>	<u>(578,649)</u>	<u>6,919,741</u>
NET OPERATING MARGIN (DEFICIT) BEFORE FIXED CHARGES	<u>(350,093)</u>	<u>(20,422)</u>	<u>(446,574)</u>	<u>578,649</u>	<u>(238,440)</u>
FIXED CHARGES					
Interest on Long-Term Debt	160,421	-	96,382	-	256,803
NET OPERATING MARGIN (DEFICIT)	<u>(510,514)</u>	<u>(20,422)</u>	<u>(542,956)</u>	<u>578,649</u>	<u>(495,243)</u>
NON-OPERATING MARGIN (DEFICIT)					
Gain on Investments	267,403	(57,136)	94	-	210,361
Gain (Loss) on Disposal of Property, Plant and Equipment	-	-	24,342	(24,342)	-
Impairment Loss on Inventory	-	-	(44,500)	-	(44,500)
Subsidiaries Net Income (Loss)	(640,578)	-	-	640,578	-
Non-Regulated Revenue	7,130,187	-	-	(337,200)	6,792,987
Non-Regulated Expense	(5,330,976)	-	-	-	(5,330,976)
Other Income	386	-	-	-	386
Grant Income	721,864	-	-	-	721,864
TOTAL NON-OPERATING MARGIN (DEFICIT)	<u>2,148,286</u>	<u>(57,136)</u>	<u>(20,064)</u>	<u>279,036</u>	<u>2,350,122</u>
NET MARGIN (DEFICIT)	<u>\$ 1,637,772</u>	<u>(77,558)</u>	<u>(563,020)</u>	<u>857,685</u>	<u>1,854,879</u>

See Independent Auditors' Report.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2018

	CTC (Parent)	SelectTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Margin (Deficit)	\$ 2,057,599	306,952	1,179,092	(1,262,478)	2,281,165
Less: Non-Regulated Income	(3,213,936)	-	-	337,200	(2,876,736)
Net Margin (Deficit) From Regulated Operations	(1,156,337)	306,952	1,179,092	(925,278)	(595,571)
Adjustments to Reconcile Net Margin (Deficit) from Regulated Operations to Net Cash Provided by (Used for) Operating Activities					
Depreciation and Amortization	1,061,073	-	214,571	(247,341)	1,028,303
Non-Regulated Depreciation	1,336,646	-	-	-	1,336,646
(Gain) Loss on Disposal of Property, Plant and Equipment	42,285	(2,775)	(21,000)	23,775	42,285
(Gain) Loss on Forgiveness of Debt	1,500,000	(300,000)	(1,200,000)	-	-
Patronage Dividend	(24,747)	-	-	-	(24,747)
Investment in Subsidiaries	(1,486,044)	-	-	1,486,044	-
(Increase) Decrease in Assets					
Net Telecommunications Accounts Receivable	7,884	-	-	-	7,884
Due from Affiliated Companies	(172,064)	-	-	172,064	-
Other Accounts Receivables	1,387	-	-	-	1,387
Materials and Supplies	45,007	5,431	(14,987)	-	35,451
Prepaid Expenses	242,529	-	(7,266)	-	235,263
Increase (Decrease) in Liabilities					
Bank Overdraft	-	-	28,099	(28,099)	-
Accounts Payable	754,266	8	16,003	-	770,277
Due to Affiliated Companies	-	(14,471)	186,535	(172,064)	-
Compensated Absences	(3,172)	-	-	-	(3,172)
Other Current Liabilities	(3,989)	-	242	-	(3,747)
Deferred Revenue	(28,371)	-	(8,665)	-	(37,036)
Deferred Grant Revenue	(721,865)	-	-	-	(721,865)
Net Cash Provided by (Used for) Operating Activities	<u>1,394,488</u>	<u>(4,855)</u>	<u>372,624</u>	<u>309,101</u>	<u>2,071,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of Property, Plant and Equipment	(3,584,471)	-	(129,898)	81,180	(3,633,189)
Proceeds From Sale of Property, Plant and Equipment	6,946	2,775	78,405	(81,180)	6,946
Non-Controlling Investments	(36,338)	-	-	-	(36,338)
Patronage-Based Investments	(18,610)	-	-	-	(18,610)
Investment Return on Prefunded Pension	(142,306)	-	-	-	(142,306)
Non-Regulated Income	3,213,936	-	-	(337,200)	2,876,736
Net Cash Provided by (Used for) Investing Activities	<u>(560,843)</u>	<u>2,775</u>	<u>(51,493)</u>	<u>(337,200)</u>	<u>(946,761)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Obligations under Capital Leases	(114,630)	-	-	-	(114,630)
Payments on Debt to CoBank	(888,888)	-	-	-	(888,888)
Debt Proceeds from CoBank	27,499	-	-	-	27,499
Intercompany Obligation	334,444	-	(334,444)	-	-
Net Cash Provided by (Used for) Financing Activities	<u>(641,575)</u>	<u>0</u>	<u>(334,444)</u>	<u>0</u>	<u>(976,019)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>192,070</u>	<u>(2,080)</u>	<u>(13,313)</u>	<u>(28,099)</u>	<u>148,578</u>
BALANCE AT BEGINNING OF YEAR	<u>2,780,022</u>	<u>20,757</u>	<u>116,591</u>	<u>(62,498)</u>	<u>2,854,872</u>
BALANCE AT END OF YEAR	<u>\$ 2,972,092</u>	<u>18,677</u>	<u>103,278</u>	<u>(90,597)</u>	<u>3,003,450</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid for Interest	<u>\$ 198,011</u>	<u>-</u>	<u>116,539</u>	<u>-</u>	<u>314,550</u>

(Continued)

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2017

	CTC (Parent)	SelecTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Margin (Deficit)	\$ 1,637,772	(77,558)	(563,020)	857,685	1,854,879
Less: Non-Regulated Income	(3,111,451)	-	-	337,200	(2,774,251)
Net Margin (Deficit) From Regulated Operations	(1,473,679)	(77,558)	(563,020)	1,194,885	(919,372)
Adjustments to Reconcile Net Margin (Deficit) from Regulated Operations to Net Cash Provided by (Used for) Operating Activities					
Depreciation and Amortization	803,726	-	284,422	(241,449)	846,699
Non-Regulated Depreciation	1,312,240	-	-	-	1,312,240
(Gain) Loss on Disposal on Property, Plant and Equipment	-	-	(24,342)	24,342	-
Impairment Loss on Inventory	-	-	44,500	-	44,500
Patronage Dividend	(93,538)	-	-	-	(93,538)
Investment in Subsidiaries	640,578	-	-	(640,578)	-
(Increase) Decrease in Assets					
Net Telecommunications Accounts Receivable	(13,077)	1,200	-	-	(11,877)
Due from Affiliated Companies	(688,561)	-	-	688,561	-
Other Accounts Receivables	2,830	-	-	-	2,830
Materials and Supplies	(167,748)	(314)	(58,598)	-	(226,660)
Prepaid Expenses	(1,675,048)	-	43,876	-	(1,631,172)
Increase (Decrease) in Liabilities					
Bank Overdraft	-	-	(83)	83	-
Accounts Payable	(28,150)	(2,311)	9,071	-	(21,390)
Due to Affiliated Companies	-	(2,666)	691,227	(688,561)	-
Compensated Absences	(20,141)	-	-	-	(20,141)
Other Current Liabilities	(82,541)	-	18,333	-	(64,208)
Deferred Revenue	(21,178)	-	(8,669)	-	(29,847)
Deferred Grant Revenue	(721,864)	-	-	-	(721,864)
Net Cash Provided by (Used for) Operating Activities	(2,226,151)	(81,649)	436,717	337,283	(1,533,800)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of Property, Plant and Equipment	(1,058,677)	-	(267,449)	-	(1,326,126)
Proceeds From Sale of Property, Plant and Equipment	(87,600)	-	87,600	-	-
Non-Controlling Investments	(6,199)	57,900	-	-	51,701
Patronage-Based Investments	(17,178)	16,004	-	-	(1,174)
Investment Return on Prefunded Pension	(150,708)	-	-	-	(150,708)
Non-Regulated Income	3,111,451	-	-	(337,200)	2,774,251
Net Cash Provided by (Used for) Investing Activities	1,791,089	73,904	(179,849)	(337,200)	1,347,944
CASH FLOWS FROM FINANCING ACTIVITIES					
Obligations under Capital Leases	(100,655)	-	-	-	(100,655)
Payments on Debt to CoBank	(6,826,667)	-	-	-	(6,826,667)
Debt Proceeds from CoBank	8,000,000	-	-	-	8,000,000
Intercompany Obligation	250,834	-	(250,834)	-	-
Net Cash Provided by (Used for) Financing Activities	1,323,512	0	(250,834)	0	1,072,678
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	888,450	(7,745)	6,034	83	886,822
BALANCE AT BEGINNING OF YEAR	1,891,572	28,502	110,557	(62,581)	1,968,050
BALANCE AT END OF YEAR	\$ 2,780,022	20,757	116,591	(62,498)	2,854,872
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid for Interest	\$ 160,421	-	96,382	-	256,803

See Independent Auditors' Report.

CITIZENS TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2017

	CTC (Parent)	SelecTec, Inc. (Wholly - Owned Subsidiary)	CCI (Wholly - Owned Subsidiary)	Eliminating Entries	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Margin (Deficit)	\$ 1,637,772	(77,558)	(563,020)	857,685	1,854,879
Less: Non-Regulated Income	(3,111,451)	-	-	337,200	(2,774,251)
Net Margin (Deficit) From Regulated Operations	(1,473,679)	(77,558)	(563,020)	1,194,885	(919,372)
Adjustments to Reconcile Net Margin (Deficit) from Regulated Operations to Net Cash Provided by (Used for) Operating Activities					
Depreciation and Amortization	803,726	-	284,422	(241,449)	846,699
Non-Regulated Depreciation	1,312,240	-	-	-	1,312,240
(Gain) Loss on Disposal on Property, Plant and Equipment	-	-	(24,342)	24,342	-
Impairment Loss on Inventory	-	-	44,500	-	44,500
Patronage Dividend	(93,538)	-	-	-	(93,538)
Investment in Subsidiaries	640,578	-	-	(640,578)	-
(Increase) Decrease in Assets					
Net Telecommunications Accounts Receivable	(13,077)	1,200	-	-	(11,877)
Due from Affiliated Companies	(688,561)	-	-	688,561	-
Other Accounts Receivables	2,830	-	-	-	2,830
Materials and Supplies	(167,748)	(314)	(58,598)	-	(226,660)
Prepaid Expenses	(1,675,048)	-	43,876	-	(1,631,172)
Increase (Decrease) in Liabilities					
Bank Overdraft	-	-	(83)	83	-
Accounts Payable	(28,150)	(2,311)	9,071	-	(21,390)
Due to Affiliated Companies	-	(2,666)	691,227	(688,561)	-
Compensated Absences	(20,141)	-	-	-	(20,141)
Other Current Liabilities	(82,541)	-	18,333	-	(64,208)
Deferred Revenue	(21,178)	-	(8,669)	-	(29,847)
Deferred Grant Revenue	(721,864)	-	-	-	(721,864)
Net Cash Provided by (Used for) Operating Activities	(2,226,151)	(81,649)	436,717	337,283	(1,533,800)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of Property, Plant and Equipment	(1,058,677)	-	(267,449)	-	(1,326,126)
Proceeds From Sale of Property, Plant and Equipment	(87,600)	-	87,600	-	-
Non-Controlling Investments	(6,199)	57,900	-	-	51,701
Patronage-Based Investments	(17,178)	16,004	-	-	(1,174)
Investment Return on Prefunded Pension	(150,708)	-	-	-	(150,708)
Non-Regulated Income	3,111,451	-	-	(337,200)	2,774,251
Net Cash Provided by (Used for) Investing Activities	1,791,089	73,904	(179,849)	(337,200)	1,347,944
CASH FLOWS FROM FINANCING ACTIVITIES					
Obligations under Capital Leases	(100,655)	-	-	-	(100,655)
Payments on Debt to CoBank	(6,826,667)	-	-	-	(6,826,667)
Debt Proceeds from CoBank	8,000,000	-	-	-	8,000,000
Intercompany Obligation	250,834	-	(250,834)	-	-
Net Cash Used for Financing Activities	1,323,512	0	(250,834)	0	1,072,678
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	888,450	(7,745)	6,034	83	886,822
BALANCE AT BEGINNING OF YEAR	1,891,572	28,502	110,557	(62,581)	1,968,050
BALANCE AT END OF YEAR	\$ 2,780,022	20,757	116,591	(62,498)	2,854,872
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash Paid for Interest	\$ 160,421	-	96,382	-	256,803

See Independent Auditors' Report.